

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Casnovia Township	County Muskegon
Fiscal Year End 03/31/2007	Opinion Date October 1, 2007	Date Audit Report Submitted to State December 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

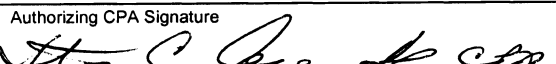
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Letter of Significant Deficiencies	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name Steven C. Arends, C.P.A.	License Number 1101013211	

CASNOVIA TOWNSHIP, MUSKEGON COUNTY

CASNOVIA, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

MARCH 31, 2007

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CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

MARCH 31, 2007

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Baird, Cotter and Bishop, P.C.

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October 1, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Casnovia Township
Muskegon County
Casnovia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Casnovia Township, Muskegon County, Casnovia, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Casnovia Township, Muskegon County, Casnovia, Michigan as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on pages 21 and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Casnovia Township, Muskegon County, Casnovia, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Casnovia Township, a general law township located in Muskegon County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Casnovia Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007, along with specific comparative information as required.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$758,927. Of this amount, \$220,606 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$523,312, an increase of \$140,062 in comparison with the prior year. About 42% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide financial statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township was \$758,927 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Casnovia Township
Net Assets as of March 31,

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 527,350	\$ 389,170
Non Current Assets		
Capital Assets	901,872	850,037
Less: Accumulated Depreciation	<u>(666,257)</u>	<u>(631,263)</u>
Total Non Current Assets	<u>235,615</u>	<u>218,774</u>
Total Assets	<u><u>\$ 762,965</u></u>	<u><u>\$ 607,944</u></u>
Liabilities		
Current Liabilities	<u>\$ 4,038</u>	<u>\$ 5,767</u>
Net Assets		
Invested in Capital Assets	235,615	218,774
Restricted for Specific Purposes	302,706	194,172
Unrestricted	<u>220,606</u>	<u>189,231</u>
Total Net Assets	<u>758,927</u>	<u>602,177</u>
Total Liabilities and Net Assets	<u><u>\$ 762,965</u></u>	<u><u>\$ 607,944</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$220,606 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$156,750 or 20.7% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

**Casnovia Township
Change in Net Assets
for the Fiscal Year Ended March 31,**

	<u>2007</u>	<u>2006</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 30,283	\$ 38,302
Operating Grant and Contributions	3,377	3,271
Capital Grants and Contributions	40,180	107,929
General Revenues		
Property Taxes	212,579	143,449
State Shared Revenue	173,395	188,102
Unrestricted Investment Earnings	3,425	3,516
Other	<u>19,504</u>	<u>12,018</u>
Total Revenues	<u>482,743</u>	<u>496,587</u>
<u>Expenses</u>		
Legislative	34,072	25,804
General Government	92,616	94,532
Public Safety	133,362	204,724
Public Works	27,499	91,550
Community and Economic Development	1,824	18,617
Recreational and Cultural	530	1,503
Other Functions	30,633	29,982
Unallocated Depreciation	<u>5,457</u>	<u>34,927</u>
Total Expenses	<u>325,993</u>	<u>501,639</u>
Changes in Net Assets	156,750	(5,052)
<u>NET ASSETS</u> - Beginning of Year	<u>602,177</u>	<u>607,229</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 758,927</u></u>	<u><u>\$ 602,177</u></u>

Governmental Activities

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$156,750 or 20.7% in the governmental funds. The majority of this increase represents the extra mill that was voted on for fire operations.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

The most significant part of the revenue for all governmental activities of Casnovia Township comes from property taxes. The Township levied 1.0635 mills in property tax for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation. In 2007, the amount of state shared revenue received by the Township trended downward.

The Township's governmental activities expenses are dominated by Public Safety expenses that total 31.8% of total expenses. The Township spent \$133,362 in fiscal year 2007 on Public Safety expenses. General Administrative represented the next largest expense at \$92,616, or 28.4% of total expenses. Expenses for salaries and contracted services represent a large portion of the General Administrative expenses at \$79,551. Depreciation expense added another \$34,994.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds – The focus of Casnovia Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Casnovia Township's governmental funds reported combined ending fund balances of \$523,312. Approximately 42% of this total amount (\$220,606) constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

General Fund – The General Fund increased its fund balance by \$54,570 which brings the fund balance to \$147,558. The General Fund's fund balance is unreserved. Property tax revenues increased by 5% or \$838. State shared revenues decreased by \$14,707 from the prior year. This represents an 8% decrease.

Fire Operating Fund – The Fire Operating Fund, which is a new fund, increased its fund balance by \$63,779, which brings the fund balance to \$63,779. This balance is reserved and must be used for fire operations.

The Township levied a fire operating millage on the 2006 tax roll. This resulted in \$64,162 in tax related revenues during the current fiscal year.

Fire Equipment Fund – The Fire Equipment Fund increased its fund balance by \$44,697 which brings the fund balance to \$237,703. This balance is reserved and must be used for fire equipment.

The Township levied a fire millage on the 2006 tax roll. This resulted in \$60,890 in tax related revenues during the current fiscal year.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Fire Building Fund – The Fire Building Fund increased its fund balance by \$786 which brings the fund balance to \$13,156. Charges for services and interest earned were the only two revenues at \$721 and \$65, respectively.

Public Improvement Fund – The Public Improvement Fund decreased its fund balance by \$23,828 which brings the fund balance to \$59,892. Interest earnings of \$2,172 were the only revenues.

Building Department Fund – The Building Department Fund increased its fund balance by \$58 which brings the fund balance to \$1,224. This balance is reserved and must be used for building inspections. Charges for permits amounted to \$17,158.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2007 amounted to \$235,615 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 7%.

Capital assets summarized below include any items purchased with a cost greater than \$500 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Casnovia Township
Capital Assets as of March 31,**

	<u>2007</u>	<u>2006</u>
Land and Land Improvements	\$ 32,783	\$ 3,505
Buildings	114,296	114,296
Machinery and Equipment	<u>754,793</u>	<u>732,236</u>
	\$ 901,872	\$ 850,037
Less Accumulated depreciation	<u>666,257</u>	<u>631,263</u>
Net Capital Assets	<u><u>\$ 235,615</u></u>	<u><u>\$ 218,774</u></u>

Major capital asset events during the current fiscal year included the following:

- Purchased land for new fire station.
- Bought various fire equipment using FEMA grant money.
- Purchased a new computer.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Long-Term Debt. Casnovia Township has no obligation for any long-term debt as of March 31, 2007.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. A fire millage was once again levied for the 2007 tax roll.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Casnovia Township at 245 Canada Road, Casnovia, Michigan 49318.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 463,600
Receivables	
Taxes	20,648
External Party (Fiduciary Fund)	1,000
Due from Other Governments	<u>42,102</u>
Total Current Assets	<u>527,350</u>
<u>CAPITAL ASSETS</u>	
Land	32,283
Land Improvements	500
Buildings	114,296
Machinery and Equipment	<u>754,793</u>
	901,872
Less Accumulated Depreciation	<u>666,257</u>
Net Capital Assets	<u>235,615</u>
 TOTAL ASSETS	 <u>762,965</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	1,370
Payroll Taxes and Withholdings	<u>2,668</u>
Total Current Liabilities	<u>4,038</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	235,615
Restricted for Fire Equipment	237,703
Restricted for Building Inspections	1,224
Restricted for Fire Operations	63,779
Unrestricted	<u>220,606</u>
TOTAL NET ASSETS	<u>\$ 758,927</u>

The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

		PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 34,072	\$ 0	\$ 0	\$ 0	\$ (34,072)
General Government	92,616	12,404	3,377	0	(76,835)
Public Safety	133,362	17,879	0	40,180	(75,303)
Public Works	27,499	0	0	0	(27,499)
Community and Economic Development	1,824	0	0	0	(1,824)
Recreation and Cultural	530	0	0	0	(530)
Other Functions	30,633	0	0	0	(30,633)
Unallocated Depreciation	5,457	0	0	0	(5,457)
Total Governmental Activities	\$ 325,993	\$ 30,283	\$ 3,377	\$ 40,180	(252,153)
<u>GENERAL REVENUES</u>					
Taxes					212,579
State Shared Revenue					173,395
Investment Earnings					3,425
Other					19,504
Total General Revenues					408,903
Change in Net Assets					156,750
<u>NET ASSETS</u> - Beginning of Year					602,177
<u>NET ASSETS</u> - End of Year					\$ 758,927

The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2007

<u>ASSETS</u>	GENERAL FUND	FIRE OPERATING FUND	FIRE EQUIPMENT FUND
Cash	\$ 98,159	\$ 57,309	\$ 233,899
Taxes Receivable	20,648	0	0
Due from Other Governments	42,102	0	0
Due from Other Funds	1,000	6,857	3,804
Total Assets	<u>\$ 161,909</u>	<u>\$ 64,166</u>	<u>\$ 237,703</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 983	\$ 387	\$ 0
Payroll Taxes and Withholdings	2,668	0	0
Due to Other Funds	10,700	0	0
Total Liabilities	<u>\$ 14,351</u>	<u>\$ 387</u>	<u>\$ 0</u>

FUND BALANCE

Reserved for:			
Fire Equipment	\$ 0	\$ 0	\$ 237,703
Building Inspections	0	0	0
Fire Operations	0	63,779	0
Unreserved			
Designated for:			
Fire Buildings	0	0	0
Public Improvement	0	0	0
Undesignated	147,558	0	0
Total Fund Balance	<u>\$ 147,558</u>	<u>\$ 63,779</u>	<u>\$ 237,703</u>

TOTAL LIABILITIES AND
FUND BALANCE

<u>\$ 161,909</u>	<u>\$ 64,166</u>	<u>\$ 237,703</u>
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The accompanying notes are an integral part of the financial statements.

FIRE BUILDING FUND	PUBLIC IMPROVEMENT FUND	BUILDING DEPARTMENT FUND	TOTALS
\$ 13,156	\$ 59,892	\$ 1,185	\$ 463,600
0	0	0	20,648
0	0	0	42,102
0	0	39	11,700
<u>\$ 13,156</u>	<u>\$ 59,892</u>	<u>\$ 1,224</u>	<u>\$ 538,050</u>

\$ 0	\$ 0	\$ 0	\$ 1,370
0	0	0	2,668
0	0	0	10,700
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,738</u>

\$ 0	\$ 0	\$ 0	237,703
0	0	1,224	1,224
0	0	0	63,779

13,156	0	0	13,156
0	59,892	0	59,892
0	0	0	147,558
<u>\$ 13,156</u>	<u>\$ 59,892</u>	<u>\$ 1,224</u>	<u>\$ 523,312</u>

<u>\$ 13,156</u>	<u>\$ 59,892</u>	<u>\$ 1,224</u>	<u>\$ 538,050</u>
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The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balance for Governmental Funds	\$ 523,312
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 32,283	
Land Improvements	500	
Buildings	114,296	
Machinery and Equipment	754,793	
Accumulated Depreciation	<u>(666,257)</u>	<u>235,615</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 758,927</u></u>
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The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY

CASNOVIA, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	FIRE OPERATING FUND	FIRE EQUIPMENT FUND
<u>REVENUES</u>			
Taxes	\$ 87,680	\$ 64,162	\$ 60,890
State Grants	176,772	0	0
Federal Grants	40,180	0	0
Charges for Services	12,404	0	0
Interest and Rents	238	3	931
Other Revenues	17,504	0	2,000
Total Revenues	334,778	64,165	63,821
<u>EXPENDITURES</u>			
Legislative	34,072	0	0
General Government	98,249	0	0
Public Safety	84,076	386	19,124
Public Works	27,499	0	0
Community and Economic Development	1,824	0	0
Recreation and Cultural	530	0	0
Other Functions	30,633	0	0
Total Expenditures	276,883	386	19,124
Excess (Deficiency) of Revenues Over Expenditures	57,895	63,779	44,697
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	0	0
Transfers Out	(3,325)	0	0
Total Other Financing Sources (Uses)	(3,325)	0	0
Net Change in Fund Balance	54,570	63,779	44,697
<u>FUND BALANCE</u> - Beginning of Year	92,988	0	193,006
<u>FUND BALANCE</u> - End of Year	\$ 147,558	\$ 63,779	\$ 237,703

The accompanying notes are an integral part of the financial statements.

FIRE BUILDING FUND	PUBLIC IMPROVEMENT FUND	BUILDING DEPARTMENT FUND	TOTALS
\$ 0	\$ 0	\$ 0	\$ 212,732
0	0	0	176,772
0	0	0	40,180
721	0	17,158	30,283
65	2,172	16	3,425
0	0	0	19,504
786	2,172	17,174	482,896
0	0	0	34,072
0	0	0	98,249
0	0	20,441	124,027
0	26,000	0	53,499
0	0	0	1,824
0	0	0	530
0	0	0	30,633
0	26,000	20,441	342,834
786	(23,828)	(3,267)	140,062
0	0	3,325	3,325
0	0	0	(3,325)
0	0	3,325	0
786	(23,828)	58	140,062
12,370	83,720	1,166	383,250
\$ 13,156	\$ 59,892	\$ 1,224	\$ 523,312

The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ 140,062
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(34,994)
Capital Outlay	51,835
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds	
Deferred Revenue - Beginning of Year	(153)
Deferred Revenue - End of Year	<u>0</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 156,750</u></u>

The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 1,000
	<hr/> <hr/>
<u>LIABILITIES</u>	
Due to General Fund	\$ 1,000
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Casnovia Township is a general law township located in Muskegon County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Casnovia Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Equipment Fund* accounts for revenue sources that are legally restricted to expenditure for fire equipment.

The *Fire Building Fund* accounts for revenue sources that are designated for expenditures for fire building.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

The *Public Improvement Fund* accounts for revenue sources that are designated for expenditures for public improvements.

The *Building Department Fund* accounts for revenue sources that are legally restricted to expenditure for building construction code enforcement activities.

The *Fire Operating Fund* is a new fund that accounts for revenue sources that are legally restricted to expenditures for fire operations.

Additionally Casnovia Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

- I. The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

In accordance with Public Act 20 of the Public Acts of 1943, as amended, the investment policy adopted by the Township allows the surplus funds of Casnovia Township to be invested as follows:

- a) Bonds, securities, and other obligations of the United States with full faith and credit of the United States Government.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- c) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d) Bankers' acceptances of United States banks.
- e) Mutual funds registered under the investment company act of 1940, maintain a \$1.00 per share net asset value.
- f) Investment pools organized under the Surplus Funds Investment Pool Act, 1985 PA 367, 129.111 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of Casnovia Township totaled \$64,161,899, on which ad valorem taxes levied consisted of 1.0635 mills for Casnovia Township operating purposes, 0.9490 mills for Casnovia Township fire equipment, and 1.000 mills for fire operation. These levies raised approximately \$68,236 for operating purposes, \$60,890 for future fire equipment purchases, and \$64,162 for fire operations.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Land improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 29, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Legislative	\$ 32,300	\$ 34,072
Community and Economic Development	1,800	1,824
Other Functions	30,000	30,633
Fire Operating Fund		
Public Safety	0	386

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Choice One Bank, in Sparta, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, of the government's bank balance of \$477,291, \$377,291 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>
Receivables	
Taxes	\$ 20,648
Due from Other Governments	<u>42,102</u>
	<u>\$ 62,750</u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year the Township did not have any deferred revenue.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 3,005	\$ 29,278	\$ 0	\$ 32,283
Capital assets, being depreciated				
Land improvements	500	0	0	500
Buildings	114,296	0	0	114,296
Machinery and equipment	732,236	22,557	0	754,793
Total capital assets, being depreciated	847,032	22,557	0	869,589
Less accumulated depreciation for:				
Land improvements	287	25	0	312
Buildings	25,221	2,479	0	27,700
Machinery and equipment	605,755	32,490	0	638,245
Total accumulated depreciation	631,263	34,994	0	666,257
Total capital assets, being depreciated, net	215,769	(12,437)	0	203,332
Governmental activities capital assets, net	\$ 218,774	\$ 16,841	\$ 0	\$ 235,615
Governmental activities:				
Depreciation				\$ 34,994

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2007.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 1,000	\$ 10,700
Special Revenue Funds		
Fire Equipment	3,804	0
Building Department	39	0
Fire Operating	6,857	0
Fiduciary Funds		
Current Tax Collection Fund	0	1,000
	<u>\$ 11,700</u>	<u>\$ 11,700</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund Transfers as of March 31, 2007:

	<u>TRANSFERS IN</u>	<u>OUT</u>
<u>Primary Government</u>		
General Fund	\$ 0	\$ 3,325
Building Department	3,325	0
	<u>\$ 3,325</u>	<u>\$ 3,325</u>

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

At March 31, 2007, the Township was not obligated for any long-term debt.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Special Revenue Funds

Fire Equipment Fund

Equipment

\$237,703

Building Department Fund

Building Inspection

1,224

Fire Operating Fund

Fire Operations

63,779

\$302,706

FUND BALANCE

Reserved

Special Revenue Funds

Fire Equipment Fund

Equipment

\$237,703

Building Department Fund

Building Inspection

1,224

Fire Operating Fund

Fire Operations

63,779

Designated

Fire Building Fund

Designated for Fire Buildings

13,156

Public Improvement Fund

Designated for Public Improvements

59,892

TOTAL FUND BALANCE RESERVES AND DESIGNATIONS

\$375,754

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

The Township has a defined contribution pension plan with Manufacturers Life Insurance Company which covers Township officers which elect to be covered. Township contributions to the plan for 2006-2007, amounted to \$15,600. In addition, the Township paid account fees and charges of \$1,188. For the 2006-2007 year, total covered payroll amounted to \$59,100 and total wages including non-covered was \$106,808.

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007

	GENERAL FUND			FIRE OPERATING FUND			FIRE EQUIPMENT FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 88,800	\$ 88,800	\$ 87,680	\$ 0	\$ 0	\$ 64,162	\$ 58,000	\$ 58,000	\$ 60,890
State Grants	178,500	178,500	176,772	0	0	0	0	0	0
Federal Grants	14,000	14,000	40,180	0	0	0	0	0	0
Charges for Services	14,600	14,600	12,404	0	0	0	0	0	0
Interest and Rents	500	500	238	0	0	3	1,000	1,000	931
Other Revenues	10,000	10,000	17,504	0	0	0	0	0	2,000
Total Revenues	\$ 306,400	\$ 306,400	\$ 334,778	\$ 0	\$ 0	\$ 64,165	\$ 59,000	\$ 59,000	\$ 63,821
<u>EXPENDITURES</u>									
Legislative	\$ 32,300	\$ 32,300	\$ 34,072	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	99,400	99,400	98,249	0	0	0	0	0	0
Public Safety	86,050	86,050	84,076	0	0	386	0	23,000	19,124
Public Works	97,076	97,076	27,499	0	0	0	0	0	0
Community and Economic Development	1,800	1,800	1,824	0	0	0	0	0	0
Recreation and Cultural	1,000	1,000	530	0	0	0	0	0	0
Other Functions	30,000	30,000	30,633	0	0	0	0	0	0
Total Expenditures	\$ 347,626	\$ 347,626	\$ 276,883	\$ 0	\$ 0	\$ 386	\$ 0	\$ 23,000	\$ 19,124
Excess (Deficiency) of Revenues Over Expenditures	\$ (41,226)	\$ (41,226)	\$ 57,895	\$ 0	\$ 0	\$ 63,779	\$ 59,000	\$ 36,000	\$ 44,697
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers Out	0	0	(3,325)	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ (3,325)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Change in Fund Balance	\$ (41,226)	\$ (41,226)	\$ 54,570	\$ 0	\$ 0	\$ 63,779	\$ 59,000	\$ 36,000	\$ 44,697
<u>FUND BALANCE</u> - Beginning of Year	41,226	41,226	92,988	0	0	0	188,372	188,372	193,006
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 147,558	\$ 0	\$ 0	\$ 63,779	\$ 247,372	\$ 224,372	\$ 237,703

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007

	<u>FIRE BUILDING FUND</u>			<u>PUBLIC IMPROVEMENT FUND</u>			<u>BUILDING DEPARTMENT FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>									
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	0	0	0	0	0	0	0	0	0
Federal Grants	0	0	0	0	0	0	0	0	0
Charges for Services	1,000	1,000	721	0	0	0	25,000	25,000	17,158
Interest and Rents	50	50	65	1,500	1,500	2,172	100	100	16
Other Revenues	0	0	0	0	0	0	0	0	0
Total Revenues	\$ 1,050	\$ 1,050	\$ 786	\$ 1,500	\$ 1,500	\$ 2,172	\$ 25,100	\$ 25,100	\$ 17,174
<u>EXPENDITURES</u>									
Legislative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	0	0	0	0	0	0	0	0	0
Public Safety	0	0	0	0	0	0	26,743	26,743	20,441
Public Works	0	0	0	0	30,000	26,000	0	0	0
Community and Economic Development	0	0	0	0	0	0	0	0	0
Recreation and Cultural	0	0	0	0	0	0	0	0	0
Other Functions	0	0	0	0	0	0	0	0	0
Total Expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 30,000	\$ 26,000	\$ 26,743	\$ 26,743	\$ 20,441
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,050	\$ 1,050	\$ 786	\$ 1,500	\$ (28,500)	\$ (23,828)	\$ (1,643)	\$ (1,643)	\$ (3,267)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,325
Transfers Out	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,325
Net Change in Fund Balance	\$ 1,050	\$ 1,050	\$ 786	\$ 1,500	\$ (28,500)	\$ (23,828)	\$ (1,643)	\$ (1,643)	\$ 58
<u>FUND BALANCE - Beginning of Year</u>	12,355	12,355	12,370	67,735	67,735	83,720	1,643	1,643	1,166
<u>FUND BALANCE - End of Year</u>	\$ 13,405	\$ 13,405	\$ 13,156	\$ 69,235	\$ 39,235	\$ 59,892	\$ 0	\$ 0	\$ 1,224

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 98,159
Taxes Receivable	20,648
Due from Other Funds	1,000
Due from Other Governments	<u>42,102</u>
 TOTAL ASSETS	 <u><u>\$ 161,909</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 983
Payroll Liabilities	2,668
Due to Other Funds	<u>10,700</u>
 Total Liabilities	 14,351

FUND BALANCE

Unreserved	
Undesignated	<u>147,558</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 161,909</u></u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	BUDGET	ACTUAL
<u>REVENUES</u>		
Taxes	\$ 88,800	\$ 87,680
State Grants	178,500	176,772
Federal Grants	14,000	40,180
Charges for Services	14,600	12,404
Interest and Rents	500	238
Other Revenues	10,000	17,504
Total Revenues	306,400	334,778
<u>EXPENDITURES</u>		
Legislative		
Township Board	32,300	34,072
General Government		
Supervisor	10,550	10,454
Election	3,300	3,627
Assessor	15,900	15,225
Clerk	18,000	17,633
Board of Review	2,100	2,030
Treasurer	14,350	13,597
Building and Grounds	10,500	10,876
Cemetery	24,700	24,807
Public Safety	86,050	84,076
Public Works	97,076	27,499
Community and Economic Development	1,800	1,824
Recreation	1,000	530
Other Functions	30,000	30,633
Total Expenditures	347,626	276,883
Excess (Deficiency) of Revenues Over Expenditures	(41,226)	57,895

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out	0	(3,325)
Net Change in Fund Balance	(41,226)	54,570
<u>FUND BALANCE</u> - Beginning of Year	41,226	92,988
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ 147,558</u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE OPERATING FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 57,309
Due From Other Funds	<u>6,857</u>
 TOTAL ASSETS	 <u><u>\$ 64,166</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 387
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FUND BALANCE

Reserved for Fire Operation	<u>63,779</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 64,166</u></u>
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CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE OPERATING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2007

REVENUES

Taxes

Current Property Taxes \$ 64,162

Interest and Rents

Interest Earnings 3

Total Revenues 64,165

EXPENDITURES

Public Safety

Fire Operating

Contracted Services 349

Repairs and Maintenance 37

Total Expenditures 386

Excess (Deficiency) of Revenues

Over Expenditures 63,779

FUND BALANCE - Beginning of Year 0

FUND BALANCE - End of Year \$ 63,779

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE EQUIPMENT FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 233,899
Due from Other Funds	<u>3,804</u>
 TOTAL ASSETS	 <u><u>\$ 237,703</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Reserved for Fire Equipment	<u>237,703</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 237,703</u></u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE EQUIPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes		
Current Property Taxes	\$ 52,000	\$ 60,890
Delinquent Property Taxes	6,000	0
Interest and Rents		
Interest Earnings	1,000	931
Other Revenue	0	2,000
	<hr/>	<hr/>
Total Revenues	59,000	63,821
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Public Safety		
Fire Equipment		
Repairs	0	422
Capital Outlay	23,000	18,702
	<hr/>	<hr/>
Total Expenditures	23,000	19,124
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	36,000	44,697
	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	188,372	193,006
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 224,372	\$ 237,703
	<hr/>	<hr/>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE BUILDING FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	<u>\$ 13,156</u>
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Designated for Fire Buildings	<u>13,156</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 13,156</u>
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CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

FIRE BUILDING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Charges for Services	\$ 1,000	\$ 721
Interest and Rents		
Interest Earnings	50	65
Total Revenues	1,050	786
<u>EXPENDITURES</u>	0	0
Excess (Deficiency) of Revenues		
Over Expenditures	1,050	786
<u>FUND BALANCE</u> - Beginning of Year	12,355	12,370
<u>FUND BALANCE</u> - End of Year	\$ 13,405	\$ 13,156

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

PUBLIC IMPROVEMENT FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 59,892
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Unreserved

Designated for Public Improvement	<u>59,892</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 59,892</u>
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CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

PUBLIC IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Interest and Rents		
Interest Earnings	\$ 1,500	\$ 2,172
<u>EXPENDITURES</u>		
Capital Outlay	30,000	26,000
Excess (Deficiency) of Revenues Over Expenditures	(28,500)	(23,828)
<u>FUND BALANCE</u> - Beginning of Year	67,735	83,720
<u>FUND BALANCE</u> - End of Year	\$ 39,235	\$ 59,892

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

BUILDING DEPARTMENT FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 1,185
Due from Other Funds	<u>39</u>
TOTAL ASSETS	<u><u>\$ 1,224</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
<u>FUND BALANCE</u>	
Reserved for Building Inspections	<u>1,224</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,224</u></u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

BUILDING DEPARTMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Charges for Services		
Permits	\$ 25,000	\$ 17,158
Interest and Rents		
Interest Earnings	100	16
Total Revenues	<u>25,100</u>	<u>17,174</u>
<u>EXPENDITURES</u>		
Public Safety		
Building Inspection Department		
Zoning Administrator		
Personal Services		
Salaries and Wages	10,000	9,300
Secretary		
Personal Services		
Salaries and Wages	2,843	0
Other Services and Charges		
Contracted Services	<u>13,900</u>	<u>11,141</u>
Total Expenditures	<u>26,743</u>	<u>20,441</u>
Excess (Deficiency) of Revenues		
Over Expenditures	(1,643)	(3,267)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In	<u>0</u>	<u>3,325</u>
Net Change in Fund Balance	(1,643)	58
<u>FUND BALANCE</u> - Beginning of Year	<u>1,643</u>	<u>1,166</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ 1,224</u>

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
MARCH 31, 2007

ASSETS

	Balance			Balance
	April 1, 2006	Additions	Reductions	March 31, 2007
Cash	\$ 1,025	\$ 2,083,589	\$ (2,083,614)	\$ 1,000

LIABILITIES

Due to Other Funds	\$ 1,025	\$ 195,183	\$ (195,208)	\$ 1,000
Due to Other Governments	0	1,879,646	(1,879,646)	0
Due to Other Organizations and Individuals	0	8,760	(8,760)	0
TOTAL LIABILITIES	\$ 1,025	\$ 2,083,589	\$ (2,083,614)	\$ 1,000

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

STATEMENT OF 2006 PROPERTY TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County		\$	622,908	
County - State Education Tax			384,971	
Township				
Operating	\$	68,236		
Fire Operating		64,162		
Fire Equipment		60,890	193,288	
Schools				
Grant Public Schools		343,557		
Kent City Community Schools		357,978		
Ravenna Public Schools		29,364	730,899	
Intermediate Schools				
Kent Intermediate		136,198		
Newaygo County Intermediate		195,524		
Muskegon Area Intermediate		10,811	342,533	\$ 2,274,599

TAXES COLLECTED

County			565,268	
County - State Education Tax			357,897	
Township				
Operating		47,588		
Fire Operating		64,162		
Fire Equipment		60,890	172,640	
Schools				
Grant Public Schools		299,186		
Kent City Community Schools		314,535		
Ravenna Public Schools		27,659	641,380	
Intermediate Schools				
Kent Intermediate		123,884		
Newaygo County Intermediate		175,328		
Muskegon Area Intermediate		10,063	309,275	2,046,460

TAXES RETURNED DELINQUENT

County			57,642	
County - State Education Tax			27,074	
Township				
Operating		20,648		
Fire Operating		0		
Fire Equipment		0	20,648	

CASNOVIA TOWNSHIP, MUSKEGON COUNTY
CASNOVIA, MICHIGAN

STATEMENT OF 2006 PROPERTY TAX ROLL
MARCH 31, 2007

Schools

Grant Public Schools	44,371	
Kent City Community Schools	43,443	
Ravenna Public Schools	<u>1,705</u>	89,519

Intermediate Schools

Kent Intermediate	12,314		
Newaygo County Intermediate	20,196		
Muskegon Area Intermediate	<u>748</u>	<u>33,258</u>	<u>\$ 228,141</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

October 1, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Casnovia Township
Muskegon County
Casnovia, Michigan

During the course of our audit of the basic financial statements of Casnovia Township for the year ended March 31, 2007, we noted the following:

Act 621 (Uniform Budgeting and Accounting Act)

Expenditures exceeded appropriations in the General Fund, Legislative, Community and Economic Development and in the Fire Equipment Fund. The Township should amend individual fund budgets prior to incurring expenditures in excess of budgeted amounts. Also, a budget was not adopted for the Township's newly created Fire Operating Fund.

Cash Not Reconciled

Certain accounts within the Township were not reconciled to the bank and books during the year. The Michigan Department of Treasury Account Procedures Manual requires that this be done on a monthly basis, and that the Clerk and Treasurer reconcile to each other at least monthly.

We would like to thank the board for its continued confidence in our firm and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
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October 1, 2007

To the Township Board
Casnovia Township
Muskegon County
Casnovia, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Casnovia Township, Muskegon County, Casnovia, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Casnovia Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in (1) above (Lack of Segregation of Duties) constitutes a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.